



Approved for Distribution
/s/ Beverly R. Cameron

Memorandum

To: Mayor Thomas J. Tomzak and Members of City Council
From: Beverly R. Cameron, City Manager
Date: May 5, 2011
Subject: Eagle Village Hotel, Tourism Zone Incentive Agreement

Issue

Shall the City Council grant an incentive agreement under the recently created Eagle Village Tourism Zone for a hotel planned by the University of Mary Washington Foundation (UMW Foundation)?

Recommendation

I recommend that City Council grant a ten-year incentive agreement with performance measures as detailed herein. The proposed agreement provides for a maximum incentive of \$310,000 over the ten-year term in the form of reimbursement of the 1% local sales tax.

Background

The UMW Foundation plans a four-story, 96-room limited service hotel on a two-acre site between Phase I and the Giant Supermarket., along the planned connector road to Sam Perry Boulevard. The hotel will principally serve the University and hospital communities, but will also provide additional rooms and meeting space for business travelers and other visitors. The UMW Foundation would own the hotel and contract the operations to a third-party management company. The hotel “flag” is to be determined.

The project has an estimated cost between \$13-14 million and would create approximately 55 full time and 15 part time jobs. Completion is targeted in mid-2013. Once completed, the hotel is projected to generate lodging, local sales, business personal property, meals, business license and real estate taxes of approximately \$327,000 per year on average which amounts to \$3,270,000 cumulatively over the ten-year term of the agreement. The proposed \$310,000 incentive represents 9.5% of the total estimated city tax receipts from the project over the 10-year term.

The application meets both the Eagle Village Tourism Zone thresholds to qualify for incentives based on job creation and capital investment although it is a requirement to meet just one threshold. Based on staff's scoring of the application, the project qualifies for revenue sharing over a ten-year term. The proposed incentive is reimbursement of the 1% local sales tax, estimated to average approximately \$31,000 per year, to a cap of \$310,000 over the ten-year term.

Under a new provision of the State Code entitled "State Tax Revenues for Tourism Projects", which becomes effective July 1, the hotel should qualify for a state incentive in the form of reimbursement to the project of one penny of the four-penny state sales tax generated by the hotel, with the City's incentive dollars comprising the required local match. This would potentially double the incentive to \$620,000 over the ten-year term, including both city and state sales tax dollars returned to the project for debt service. Staff will work with the UMW Foundation and the Virginia Tourism Corporation to qualify the hotel project for this new state incentive for approved projects in Tourism Zones.

Fiscal Impact

The project will have a substantial positive fiscal impact on the City, generating estimated new tax revenues over the ten-year term of \$2,960,000, net of the city incentive amount.

- Attachments:**
1. Application Cover Letter
 2. Scoring Sheet
 3. Proposed Incentive Summary
 4. Proposed Performance Agreement
 5. Resolution



CONFIDENTIAL

March 21, 2011

Richard Tremblay
Manager, Economic Development
City of Fredericksburg
Department of Economic Development and Tourism
706 Caroline Street
Fredericksburg, VA 22401

Re: City of Fredericksburg Incentive Application
Eagle Village Hotel Development

Dear Richard:

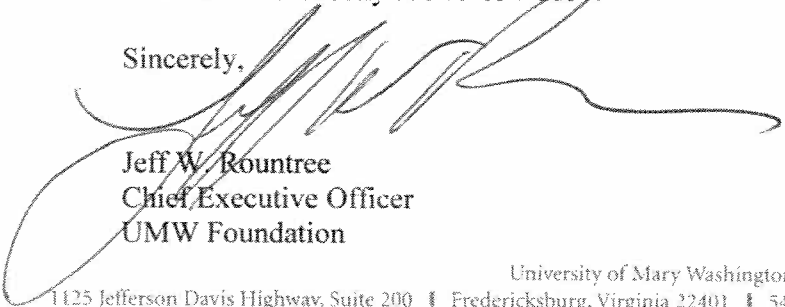
As you are aware, the University of Mary Washington Foundation is earnestly contemplating the development of a 96-key select service Hotel (with meeting space) located next to the Giant Supermarket at our transforming Eagle Village mixed-use center. This Hotel will offer new, high quality lodging and amenities to its guests and patrons, with close proximity to the Mary Washington Hospital and the University of Mary Washington. In addition, we would anticipate that the Hotel will serve to boost the Fredericksburg economy and further the creation of a thriving and more "walkable" community along the U.S. Route 1 corridor.

Due, in part, to the difficult economic environment, obtaining financial incentives for this Project from the City of Fredericksburg is essential. In order for us to proceed with this Project, we definitely need to find ways to lower the costs of construction and/or to lessen operating expenses in order to make our numbers work. Once we are able to bridge the projected financial gaps, we are confident that we will be able to move forward on this Phase II element of our evolving Eagle Village mixed-use development.

Attached to this letter, please find our completed Incentive Application for the proposed Hotel at Eagle Village. Please keep the enclosed information **confidential**, as this Project is still in concept.

Thank you for considering this application, and if you have any questions, please feel free to contact me directly at 540-654-1137.

Sincerely,


Jeff W. Rountree
Chief Executive Officer
UMW Foundation

University of Mary Washington Foundation

1125 Jefferson Davis Highway, Suite 200 | Fredericksburg, Virginia 22401 | 540.654.2060 | Fax 540.654.1064 | www.umw.edu/foundation



Eagle Village Hotel
March 9, 2011

City of Fredericksburg
Celebrate Virginia South/Central Park and Eagle Village
Tourism Zones Incentive Guidelines

Ordinance 07-31, adopted by City Council July 10, 2007, as amended by Ordinances 10-31 and 10-32 adopted October 26, 2010, establish the Celebrate Virginia South/Central Park and the Eagle Village Tourism Zones as areas where the City may offer economic incentives and regulatory flexibility to targeted businesses. The ordinances require the Director of Economic Development and Tourism to develop guidelines for the level of investment, job creation and other factors that determine any particular range of tax incentive or regulatory flexibility.

These guidelines are established for the purpose of implementing Ordinances 07-31, 10-31 and 10-32 with respect to the Celebrate Virginia South/Central Park and the Eagle Village Tourism Zones.

Category	Level	Points Range	Pts Awarded
1. Investment <i>#13.5M</i>	\$500K min	(5, 10, 15, <u>25, 30</u>)	<u>28</u>
2. Job Creation <i>80</i>	25 min	(5, 10, <u>15, 20</u>)	<u>18</u>
3. Local Taxes Generated (meals, lodging, local sales, machinery and tools and personal property)	\$50K min <i>Lodging - \$170,000 Sales - \$31,000 Bus. Pers. - \$24,000 Meals - \$15,000 Total = \$240,000</i>	(5, <u>10, 15</u>)	<u>13</u>
4. BPOL Tax Generated	\$3K min <i>\$11,000</i>	(5, <u>10, 15</u>)	<u>10</u>
5. Priority Location	n/a	(5, <u>10</u>)	<u>10</u>
6. Connection to Pathways	n/a <i>Hospital Connector</i>	(5)	<u>5</u>
7. Public Art Component	\$25K min	(5, 10)	<u>0</u>
8. EDA Financed <i>Infrastructure Phase I</i>	\$2M min	<u>(5, 10)</u>	<u>8</u>
9. EDA Grant Recipient	\$10K min	(5, 10)	<u>0</u>
10. Environmental Innovation		(5, 10)	<u>0</u>
11. Historic Preservation	n/a	(5, 10)	<u>0</u>
12. SWaM Certified Business	Yes/No	(5)	
Total Points for Project (25 point minimum, 100-point maximum)			<u>89</u>



City of Fredericksburg
Celebrate Virginia South/Central Park and Eagle Village
Tourism Zones Incentive Guidelines

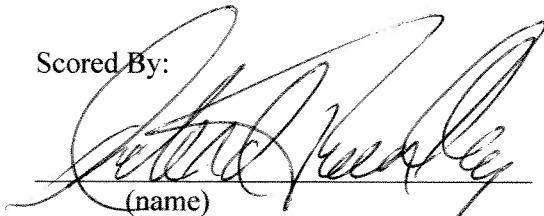
Projects scoring high on points would be considered for maximum incentive numbers and/or length of time, with a maximum of 10 years duration. The City of Fredericksburg would adjust on a sliding scale for lower scoring projects for amount and duration of incentives being offered.

The incentive value is generated from relief of BPOL, meals, lodging, local sales, admissions, machinery and tools and business personal property taxes, water and sewer fees, as well as other applicable local taxes and fees. Additionally, the City of Fredericksburg would consider grants as another incentive in partnership with the Economic Development Authority for projects of substantial size and scope.

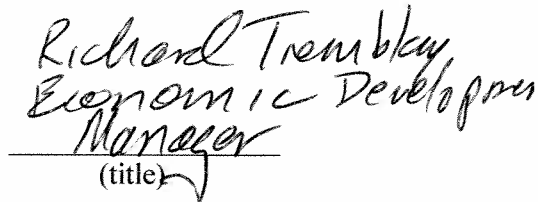
Score Range	Timeline	Grant offered
25-30	5 years	25% waiver of BPOL
30-40	5 years	40% waiver of BPOL
40-50	5-10 years	Waiver of BPOL; revenue sharing
50-60	5-10 years	Waiver of BPOL; revenue sharing
60-75	5-10 years	Waiver of BPOL; revenue sharing
<u>75-100</u> 89	5-10 years	Waiver of BPOL; revenue sharing

** Revenue sharing may be considered and is strictly on a case-by-case basis. Higher scoring applicants may be considered for higher percentage. Applicant is not automatically entitled to revenue sharing program.*

Scored By:


(name)

3/9/11
(date)


Richard Tremblay
Economic Development
Manager
(title)

(I: Incentives: Celebrate Virginia South-Central Park and Eagle Village Tourism Zones Incentive Guidelines 11.10.10)

EAGLE VILLAGE HOTEL
TOURISM ZONE INCENTIVE OUTLINE
MARCH 31, 2011

A. Eligibility Criteria for Incentives

1. Complete the hotel with a minimum of 90 rooms and open for business by December 31, 2014.
2. Capital investment of at least \$11,000,000.
3. Create and sustain at least 40 permanent jobs.
4. Generate lodging, meals, local sales and BPOL tax revenues to the city of at least \$130,000 annually.
5. Provide space for rotating exhibits of local artists at no cost to the artist.
6. File annual performance reports and remain in good standing with city codes, regulations, ordinances, taxes and fees.

B. Incentive Summary, 10-Year Term

1. 100% reimbursement of the city's 1% local sales tax. If the project is eligible and approved by the state as an authorized tourism project under VA Code Section 58.1-3851.1, which becomes effective July 1, 2011, a matching 1% state sales tax amount would be returned to the project.
2. Maximum city incentive value over 10 years of \$310,000. When the potential state sales tax match is counted, as provided above, the total maximum city and state incentive value over ten years would be \$620,000.

C. Estimated Annual Tax Revenue to the City Based on Ten Year Average

BPOL (Lodging, \$2,975,000@.0036 and Meals & Beverage, \$255,000@.0020)	\$11,220
Meals (\$255,000 @ 6%)	\$15,300
Lodging (\$2,835,000 @ 6%)	\$170,100
Local Sales (\$3,100,000 @ 1%)	\$31,000
Business Pers. Property (\$725,000 @ \$3.40/\$100)	\$24,650
Real Estate (\$11,000,000 @ \$0.68/\$100)	<u>\$74,800</u>
Total Annual Taxes	\$327,070
Total Cumulative Taxes Over 10 Years	\$3,270,700

**PERFORMANCE AGREEMENT
CITY OF FREDERICKSBURG,
FREDERICKSBURG ECONOMIC DEVELOPMENT AUTHORITY
AND
UNIVERSITY OF MARY WASHINGTON FOUNDATION**

THIS PERFORMANCE AGREEMENT (the “Agreement”) is entered into on _____, 2011 by **UNIVERSITY OF MARY WASHINGTON FOUNDATION** a Virginia _____, a Virginia non-stock corporation and a §501(c)(3) organization formed to support the University of Mary Washington (“Foundation” or “Company”), the **FREDERICKSBURG ECONOMIC DEVELOPMENT AUTHORITY**, a political subdivision of the Commonwealth of Virginia (“EDA”), and the **CITY OF FREDERICKSBURG**, a Virginia municipal corporation (the “City.”)

RECITALS:

A. The City Council adopted Ordinance 10-32 on October 26, 2010, establishing the “Eagle Village Tourism Zone” as a tourism district, by authority of Virginia Code §58.1-3851. The purpose of the Eagle Village tourism district is to provide economic incentives and regulatory flexibility for eligible business entities which will advance the long term development goals of the JumpStart! 2006 Final Report and Action Plan, and the Comprehensive Plan (2007) Corridors goals and policies.

B. The JumpStart! 2006 Final Report identifies mixed use development as a model for commercial development along the City’s commercial corridors, and encourages the City to attract development and new businesses through incentives to create a business-friendly environment. The Eagle Village tourism zone is a mixed use development, and the proposed hotel will add to the mix of residential, retail, office and parking uses on site.

C. The JumpStart! 2006 Action Plan identifies the Jefferson Davis Highway corridor as appropriate for the redevelopment of large, strip mall shopping centers into mixed use, pedestrian friendly activity centers, and specifically identifies the former Park N’ Shop (now Eagle Village) shopping center as appropriate for such redevelopment.

D. The Fredericksburg Comprehensive Plan (2007) identifies commercial corridors, including the Jefferson Davis Highway, as “key areas” for the future of the City, and adopts goals for commercial corridors including mixed-use development (Chapter 5, Goal 3).

E. The Foundation proposes to re-develop a site within the Eagle Village mixed use shopping center as a new hotel, to include at least 90 guest rooms, approximately 6,000 square feet of new retail space and 1,500 square feet of meeting space (“the Hotel”).

F. The EDA is authorized by Virginia Code §15.2-4900 *et seq.* and Fredericksburg City Code §10-232 to accept contributions in order to make grants in furtherance of its purposes, and to make grants for the purposes of promoting economic development within the City.

G. The Authority and the City have agreed to offer, and the Foundation has agreed to accept, the economic incentives contained herein in exchange for the performance promised herein.

H. The Economic Development Authority Board of Directors authorized the Chair to enter into this Agreement at its meeting of _____.

I. The City Council authorized the City Manager to enter into this Agreement at its regular meeting _____.

J. Jeff W. Rountree, Chief Executive Officer, is authorized to enter into this Agreement on behalf of the Foundation.

AGREEMENT

IN CONSIDERATION of mutual covenants, benefits and other good and valuable consideration, the receipt and sufficiency of which are acknowledged, the parties for themselves, their successors and assigns agree as follows:

1. **Recitals incorporated.** The foregoing Recitals are incorporated by reference.
2. **Eligibility criteria – in general.** In order to be eligible for the Economic Incentives described below, the Foundation shall meet these eligibility criteria for the term of this Agreement. The Foundation's failure to meet eligibility standards for one year of this Agreement does not terminate the Agreement. If the Foundation fails to meet the eligibility standards for two consecutive calendar years, beginning on the Effective Date (as defined below), then the City and the Authority may terminate this Agreement on written notice to the Foundation.
 - 2.1. Make a capital investment of at least eleven million dollars (\$11,000,000.00) to construct and equip the Hotel;
 - 2.2. Open the Hotel no later than December 31, 2014 and continue to operate the Hotel thereafter;
 - 2.3. Employ the equivalent of forty (40) full-time employees at the Hotel throughout the year;
 - 2.4. Generate annual combined lodging, meals, business license and local sales tax revenues of at least one hundred thirty thousand dollars (\$130,000.00). Lodging, meals and business license taxes are those local taxes paid on time and in full to the Fredericksburg Commissioner of Revenue. "Local sales taxes" are the 1% of state sales tax revenue returned to the City by the Commonwealth of Virginia, not including the ½% sales tax revenue for education. Penalty and interest paid on delinquent taxes are not counted in these terms. Lodging, meals, business license, and local sales tax revenue eligibility requirements shall be prorated for the calendar year in which the Hotel opens.

- 2.5. Make Hotel interior wall space available for the year-round display of art by local artists at no cost to the artist, subject to the approval of the Hotel franchisor under whose flag the Hotel operates;
- 2.6. File with the City Manager an annual Performance Report containing sufficient documentation to establish compliance with the foregoing criteria. Company shall submit the Performance Report on or before the due date of its annual BPOL tax. The City Manager will submit the Company's Performance Report to the Commissioner of Revenue for confirmation of eligibility prior to approving an economic incentive.
- 2.7. The Foundation agrees to the release by the City of otherwise confidential tax information as required for the administration of this Agreement, including the amount of any performance grant paid hereunder and information sufficient to establish the Foundation's eligibility for the economic incentives. The Foundation agrees that the Commissioner of Revenue may release to the City Manager confidential gross receipts, lodging tax, meals tax, business license tax, and sales tax information as required for the administration of this Agreement. To the fullest extent permitted by law, the City shall maintain the confidentiality of the financial projections and feasibility study submitted to the City by the Foundation as part of its incentive application, said information being proprietary to the Foundation.
3. **Economic incentive – performance grant.** Beginning January 1 of the calendar year following that in which the Hotel opens (the "Effective Date"), if the Foundation meets the eligibility criteria, then it shall receive an annual performance grant from the Fredericksburg Economic Development Authority in an amount equal to one hundred percent (100%) of the local sales taxes paid by the Hotel and received by the City during the previous calendar year, subject to appropriation by City Council and to the maximum annual incentive cap as set forth below. Further, if the Foundation meets the eligibility criteria, on a prorated basis, for the calendar year in which the Hotel opens, it shall receive a part year performance grant equal to one hundred percent (100%) of the local sales taxes paid by the Hotel and received by the City for the year in which the Hotel opens, otherwise subject to the same criteria as set forth above.
- 3.1. The EDA shall pay the performance grant within 45 days of the City Manager's written approval of the annual Performance Report, as provided in section 2.6 above.
- 3.2. As a grant to the EDA to enhance the economic development of the City, the City agrees to appropriate to the EDA an amount equal to the performance grant for each year in which the Foundation meets the eligibility criteria. **The City's obligation under this subsection shall be subject to annual appropriation by the governing body and shall not be deemed to be a general obligation or debt of the City.**
- 3.3. The EDA's obligation to pay the Foundation the annual performance grant shall be subject to the appropriation of the performance grant amount by the City Council.
4. **Maximum economic incentive.** The maximum performance grant to be paid to the Foundation over the term of this Agreement is three hundred ten thousand dollars (\$310,000.00).

5. **Term.** The term of this Agreement shall end at midnight on December 31 of the calendar year that is ten years after the Effective Date.
6. **Miscellaneous provisions.** The following provisions shall apply to this Agreement:
 - 6.1. The City Council reserves the right to revoke this agreement after 30 days' notice from the City Manager to the Company, in the event of repeated notices to the Foundation of violations of the noise ordinance, ABC regulations, statewide fire prevention code, or other health and safety violations at the business, the building code or zoning regulations, or repeated or ongoing delinquencies in taxes or fees owed to the City.
 - 6.2. This Agreement is binding upon and shall inure to the benefit of the parties and their respective successors and assigns. The Foundation may assign this Agreement, without the consent of the City, to a limited liability company formed to own the Hotel.
 - 6.3. If, by reason of *force majeure*, either party hereto shall be rendered unable, in whole or in part, to carry out its obligations under this Agreement, and if such party shall give notice and full details in writing of such *force majeure* to the other party within a thirty (30) days after the occurrence of the event or cause relied on, then the obligations of the party giving such notice, so far as it is affected by such *force majeure* shall be suspended during the continuance of the inability then claimed, but for no longer period, and such party shall endeavor to remove or overcome such inability with all reasonable dispatch. The term "*force majeure*", as employed herein, shall mean acts of public enemy, orders of any kind of the government of the United States or the Commonwealth of Virginia or any civil or military authority, insurrections, riots, arrests, civil disturbances, labor unrest or strikes, machinery failure, inability to obtain any necessary supplies, utilities or services, earthquakes, floods, fires, storms and any serious weather-related casualty.
 - 6.4. This Agreement shall be construed and interpreted in accordance with the laws of the Commonwealth of Virginia. Any actions arising out of this Agreement shall be filed and maintained in the District Court or Circuit Court of the City of Fredericksburg, Virginia.
 - 6.5. This Agreement and any amendments or exhibits hereto, contain the entire agreement of the parties, and supersedes all prior and contemporaneous agreements and understandings of the parties with respect to the subject matter hereof. No modification or amendment of this Agreement, including this Section 6.5, shall be binding and enforceable unless executed in writing by the parties hereto.
 - 6.6. All notices, requests, demands and other communications required under this Agreement shall be in writing and shall be deemed duly given and received (i) if personally delivered, on the date of delivery, (ii) if addressed as provided below, postage prepaid and mailed by United States mail registered or certified and return receipt requested, three (3) days after deposited in the United States mail, or (iii) if addressed as provided below, prepaid and deposited with a courier delivery service providing for "overnight" or "next day" delivery, on the next business day after deposit with such courier service:

If to the Foundation: University of Mary Washington Foundation
1125 Jefferson Davis Highway, Suite 200
Fredericksburg, Virginia 22401
Attn: Jeff W. Rountree, CEO

If to the City: City of Fredericksburg
Attn: City Manager
715 Princess Anne Street, Room 203
P.O. Box 7447
Fredericksburg, VA 22404

With a copy to: City Attorney
City of Fredericksburg
615 Princess Anne Street
P.O. Box 7447, Fredericksburg, VA 22404

Either party may change its above-designated address by giving the other party written notice of such change in the manner set forth herein.

The signatures of the authorized representatives of the parties are set out below in acknowledgment of this Agreement.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK - SIGNATURES FOLLOW]

UNIVERSITY OF MARY WASHINGTON FOUNDATION

By: _____
Jeff W. Rountree, Chief Executive Officer

COMMONWEALTH OF VIRGINIA

CITY/COUNTY OF _____, to wit:

The foregoing instrument was acknowledged this ____ day of _____, 2011, by Jeff W. Rountree, as Chief Executive Officer of University of Mary Washington Foundation.

Given under my hand and official seal this _____ day of _____, 2011.

Notary Public

My commission expires: _____

My registration number is: _____

ECONOMIC DEVELOPMENT AUTHORITY OF THE FREDERICKSBURG

By: _____(SEAL)
_____, Chair

Attest:

Secretary

CITY OF FREDERICKSBURG

By _____(SEAL)
Beverly R. Cameron, City Manager

Attest:

Deputy Clerk

Approved as to form:

City Attorney



MOTION:

**May 10, 2011
Regular Meeting
Resolution No. 11-**

SECOND:

ACTION: AUTHORIZING THE CITY MANAGER TO EXECUTE A PERFORMANCE AGREEMENT WITH THE UNIVERSITY OF MARY WASHINGTON FOUNDATION AND THE FREDERICKSBURG ECONOMIC DEVELOPMENT AUTHORITY, FOR TAX INCENTIVES IN THE EAGLE VILLAGE TOURISM ZONE

ACTION: Ayes: ; Nays:

WHEREAS, the City Council adopted Ordinance 10-32 on October 26, 2010, establishing the “Eagle Village Tourism Zone” as a tourism district, by authority of Virginia Code §58.1-3851. The purpose of the Eagle Village tourism district is to provide economic incentives and regulatory flexibility for eligible business entities which will advance the long term development goals of the JumpStart! 2006 Final Report and Action Plan, and the Comprehensive Plan (2007) Corridors goals and policies.

WHEREAS, the JumpStart! 2006 Final Report identifies mixed use development as a model for commercial development along the City’s commercial corridors, and encourages the City to attract development and new businesses through incentives to create a business-friendly environment. The Eagle Village tourism zone is a mixed use development, and the proposed hotel will add to the mix of residential, retail, office and parking uses on site.

WHEREAS, the JumpStart! 2006 Action Plan identifies the Jefferson Davis Highway corridor as appropriate for the redevelopment of large, strip mall shopping centers into mixed use, pedestrian friendly activity centers, and specifically identifies the former Park N’ Shop (now Eagle Village) shopping center as appropriate for such redevelopment.

WHEREAS, the Fredericksburg Comprehensive Plan (2007) identifies commercial corridors, including the Jefferson Davis Highway, as “key areas” for the future of the City, and adopts goals for commercial corridors including mixed-use development (Chapter 5, Goal 3).

WHEREAS, the Foundation proposes to re-develop a site within the Eagle Village mixed use shopping center as a new hotel, to include at least 90 guest rooms, approximately 6,000 square feet of new retail space and 1,500 square feet of meeting space (“the Hotel”).

WHEREAS, the City Manager has negotiated a proposed Performance Agreement, whereby the City and the Fredericksburg Economic Development Authority will

provide certain incentives to the University of Mary Washington Foundation in exchange for its development of a hotel in Eagle Village; and

WHEREAS, City Council wishes to authorize the City Manager to execute, deliver and carry out the terms of the Performance Agreement on behalf of the City of Fredericksburg.

NOW, THEREFORE, BE IT RESOLVED that the Fredericksburg City Council authorizes the City Manager to execute, deliver and carry out the terms of the Performance Agreement entitled, "Performance Agreement, City of Fredericksburg, Fredericksburg Economic Development Authority and University of Mary Washington Foundation, on behalf of the City of Fredericksburg, in substantially the form submitted for approval.

Votes:

Ayes:

Nays:

Absent from Vote:

Absent from Meeting:

Clerk's Certificate

I, the undersigned, certify that I am Clerk of Council of the City of Fredericksburg, Virginia, and that the foregoing is a true copy of Resolution No. 11- duly adopted at the City Council meeting held May 10, 2011 at which a quorum was present and voted.

Tonya B. Lacey
Clerk of Council